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RR RUEHMA RUEHPA
DE RUEHOS #0315/01 2200731
ZNR UUUUU ZZH
R 070731Z AUG 08
FM AMCONSUL LAGOS
TO RUEHC/SECSTATE WASHDC 0102
INFO RUEHUJA/AMEMBASSY ABUJA 9779
RUEHZK/ECOWAS COLLECTIVE
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEAWJA/DEPT OF JUSTICE WASHDC

UNCLAS SECTION 01 OF 03 LAGOS 000315

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STATE PASS USTR FOR AGAMA
STATE PASS USAID FOR NFREEMAN, GBERTOLIN
STATE PASS EXIM FOR JRICHTER
STATE PASS OPIC FOR ZHAN, MSTUCKART, JEDWARDS
STATE PASS TDA FOR LFITTS, PMARIN
DOC FOR 3317/ITA/OA/KBURRESS
DOC FOR 3310/USFC/OIO/ANESA/DHARRIS
DOJ FOR MARIE-FLORE KOUAME
TREASURY FOR RHALL, DPETERS

E.O. 12958: N/A
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SUBJECT: NIGERIA: REPORT CASTS DOUBTS ON VIABILITY OF AFRICA FINANCE CORPORATION

REF: A) Lagos 201
B) Lagos 143
C) 07 Lagos 549

11. (SBU) Summary: On July 23, news media reported the submission of a report by the Presidential Committee set up by President Yar'Adua to investigate the Central Bank of Nigeria (CBN) Governor Chukwuma Soludo's role in setting up the Africa Finance Corporation (AFC), a multilateral development corporation. The report found the CBN lacking authority in making an investment in the AFC and Governor Soludo liable for gross negligence and abuse of office with his role in the corporation's set up. Nigerian commercial banks with equity holdings in AFC are not concerned about their investment. AFC, under new leadership, is moving faster than before. End Summary.

Committee Divided on Soludo's Role

12. (U) On July 23, news media reported that the Presidential Committee, set up by President Yar'Adua on April 14 to determine whether the CBN acted within the law and regulations in setting up the Africa Finance Corporation (AFC), and to verify the CBN's authority to invest USD 462 million equity in the institution, submitted its report to the Federal Government Attorney General. Saharareporters published excerpts of the report on its website. (Comment: Saharareporters, reputedly an online news agency comprising of international reporters, is known for its sensational news reporting. It is unclear how Saharareporters obtained a copy of the report. End Comment)

13. (SBU) AFC contact told EconOff July 26 that the Presidential Committee actually submitted two reports because the committee members were divided in their assessment of the CBN and Governor Soludo's roles in setting up the corporation. The AFC received the same report published by Saharareporters. According to the contact, a second report is more sympathetic to Governor Soludo, although it is unknown to whom, if anyone, it has been submitted. The Government of Nigeria (GON) has yet to make any public statement regarding the report.

Report: CBN Lacked Authority to Invest

14. (U) According to the report published by Saharareporters, the CBN invested roughly USD 463 million as a 42.5 percent equity stake in

AFC, and the CBN Board approved the transaction on August 2, 2006. The AFC was launched in April 2007, and the CBN authorized the first fund transfer in November 2007.

The Committee found that, although the governments of Guinea-Bissau and Sierra-Leone had transmitted "letters of acceptance" of the offer to join in early 2008, there had been no actual investment made.

Conceptualized as a multilateral development institution with government-based membership, the report said the CBN investment needed "the express approval of the Federal Government of Nigeria", similar to the ratification of a treaty, before funds could be committed. In the absence of such approval, the CBN "lacked the authority" to invest in the AFC, the report found.

15. (U) On May 2, the Committee told the CBN to withdraw its investment in the AFC; the CBN effectuated this request on May 8. CBN funds are now in an account with JP Morgan Chase Bank, pending a final decision by the GON on the continuation of its investment in the AFC. The Committee directed the CBN on June 27 to make no withdrawals or have any "adverse dealings" on the account pending the GON's final decision.

Report: Soludo "Grossly
Negligent", Abused Office

16. (U) The report found CBN Governor Soludo to be the "chief visioner" and "active directing mind" of the AFC initiative. The CBN Board's decision to commit funds to the AFC in November 2007, before it became legally operational, was "hasty, procedurally wrong and legally flawed." Purportedly Soludo received approval for CBN's investment in AFC from former President Obasanjo before Obasanjo

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left office in May 2007; however, the CBN's payment was not made until five months later in November, under President Yar'Adua's administration. According to the report, Governor Soludo failed to brief President Yar'Adua and the Federal Executive Council on the need for AFC's ratification from the time of the fund transfer to the start of the investigation. The Committee found Soludo liable for "gross negligence, recklessness and gross abuse of office," and urged the GON to "take appropriate action" against the CBN Governor.

AFC's CEO Sacked

16. (SBU) EconOff's AFC contact said July 22 that Austine Ometoruwa, AFC's Chief Executive Officer, had been suspended in an emergency AFC Board meeting. The suspension was ostensibly because of Ometoruwa's slow and ineffectual management style. The contact said AFC Vice President Solomon Asamoah had taken over. On July 23, local news media reported Ometoruwa's suspension coincided with the submission of the committee report. (Comment: Banking and financial interlocutors had speculated that Ometoruwa would be removed as a strategy to take the heat off Governor Soludo and to save the AFC. End Comment)

Banks Not Worried About Investment in AFC

17. (SBU) Nigerian commercial banks with substantial investments in AFC and memberships on its Board of Directors are not worried that recent developments threaten the funds committed. China Onyemelukwe, Managing Director of Zenith Capital, told EconOff July 3 that CBN Governor Soludo made personal phone calls to bank heads to cajole them into investing. When Zenith Bank's Managing Director received a call from Soludo asking for investment, he consulted first with Onyemelukwe then with other banks. The banks consulted among themselves about the amount of investment each would contribute, Onyemelukwe explained. Zenith invested with the understanding that it would get its equity holdings back should anything happen to AFC, he said. Oti Ikomi, Executive Director of Corporate Banking Group, Oceanic International Bank, told EconOff June 11 that it would be "easy" for Oceanic to withdraw its funds. (Note: Zenith and Oceanic Banks each has a 4.59 percent equity

holding in AFC. End Note)

AFC's Capital Base Small
Compared to Nigeria Banks

¶8. (SBU) Zenith Capital's Onyemelukwe said the AFC, under former CEO Austine Ometoruwa, tried to position itself in direct competition with local commercial banks. According to Onyemelukwe, AFC would arrive at meetings and insist on taking the lead over the commercial banks in negotiating project contracts and terms. He said the banks did not understand the reasons behind AFC's jostling for power; the corporation's USD 1 billion capital base is considered "a drop in the bucket" when compared to the capital bases of the local commercial banks. Onyemelukwe also noted that the former CEO Ometoruwa spent a lot of time in Europe and did not successfully enlist buy-in from stakeholders.

AFC Pushing Ahead with Projects

¶9. (SBU) Post's AFC contact said the corporation is moving ahead even faster than before under the leadership of Solomon Asamoah, the new AFC CEO. During his first week in office, Asamoah had demonstrated a decisive and organized management style, the contact said. AFC contact expressed confidence that the corporation would be successful. She claimed that one large local commercial bank had tried to recruit AFC staff to manage development projects similar to those in AFC's portfolio, signifying AFC's early success in originating and structuring projects in Nigeria.

¶10. (SBU) Comment: The rumored submission of two reports by the Presidential Committee reflects the division between AFC's enthusiasts and its critics. It is unclear whether AFC will survive without the CBN equity investment and Soludo's support. End comment.

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¶11. (U) This cable was cleared with Embassy Abuja.

Blair